

# SOCIAL BOND REPORT

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# OVERVIEW

Nacional Financiera (Nafin) is a Mexican development bank established in 1934 with the mission of contributing to the economic development of the country by facilitating the access of micro, small and medium-sized enterprises (MSMEs), entrepreneurs and priority investment projects to financing and other business development services, as well as contributing to the formation of financial markets and acting as fiduciary and financial agent of the Federal Government which allows for the promotion of innovation, improved productivity, competitiveness, job creation and regional development. Nafin is headquartered in Mexico City, has regional representation throughout the country, and has a branch office in London, as of the publication date. Nafin focuses on fostering economic growth by financing the productive vocations of each State, especially where the presence of priority sectors development is incipient.

Nafin has an institutional program and a strategy for the period 2020-2024, which are aligned with the National Development Plan 2019-2024 (PND, by its acronym in Spanish) and the National Development Finance Program 2020-2024 (PRONAFIDE, by its acronym in Spanish). Nafin's Institutional Program 2020-2024 aims to contribute to the country's sustainable economic development by promoting micro, small and medium-sized enterprises in the country, under the principles of austerity, honesty and the fight against corruption that characterize the commitments of the Government of Mexico.



# STRATEGIC SECTORS

Nafin seeks to promote the development of productive sectors including traditional and high technology sectors. The selected sectors are based on the following criteria:

**Traditional:** Value of exports and imports above 2,000 million USD, domestic products below 45% and level of carry-over from other economic sectors.

**High-tech:** Capacity to generate competitive advantages in the national industrial sector, capacity to provide tools that allow the generation of proprietary technology at the national level; a high intersectoral impact and the generation of quality jobs.



**Tourism**



**Industrial facilities**



**Energy**



**Logistics**



**Telecommunications**



**Capital goods**



**Digital and innovation**



**Healthcare**



**Financial services**



**Electric - Electronic**



**Automotive and aerospace**



**Specialized manufacturing**



**Food processing**



**Foreign trade services**

# SUPPORT TO MEXICAN MSMEs

According to the latest figures published by the National Institute of Statistics and Geography (INEGI by its acronym in Spanish)<sup>1</sup>, as of 2023, there were 5,096,322 MSMEs, which represents 99.8% of the total number of economic units of the country.

MSMEs face major challenges<sup>2</sup>:

- Low participation in domestic value chains: The involvement of MSMEs in the value chain represents 4.6% of the total value of goods.
- Lag in productive competitiveness: due to low levels of technology adoption, specialized training and management skills; lack of data gathering systems and monitoring.
- Low access to funding: as a result of insufficient access channels, low financial educational levels, high informality levels, financial institutions' high risk aversion, high funding costs and a lack of trust in financial institutions.

Commercial banks, popular saving banks, family, friends and moneylenders are the main sources of financing for MSMEs. The role of development banks, specifically Nafin, is key to expand the number of MSMEs with access to finance. Nafin contributes with 30% of commercial credit and, through guarantees, approximately 65% of the loans granted to MSMEs.<sup>3</sup>

Nafin seeks to promote the country's economic development by financing Mexican enterprises whose activities are aligned with the priority sectors and/or productive vocations of each federal entity.

Nafin's strategy seeks to serve Mexican enterprises based on a sectorial model according to priority sectors aforementioned and on the regional vocations of each State, aiming to strengthen the areas where the country is competitive and to enhance the financial inclusion of the enterprises.

<sup>1</sup> <https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2024/EDN/EDN2023.pdf>

<sup>2</sup> Nafin (2020). Nafin Institutional Program. [https://www.nafin.com/portalfn/files/secciones/Acerca\\_de\\_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf](https://www.nafin.com/portalfn/files/secciones/Acerca_de_Nafin/Programa-Institucional-NAFIN-2020-2024.pdf)

<sup>3</sup> According to the Institutional Program 2020-2024.

# SUSTAINABILITY BOND FRAMEWORK

Nafin's Sustainability Bond Framework was developed based on the Sustainability Bond Guidelines (SBG) of the International Capital Market Association (ICMA) 2021 and is aligned with the four core components of the Green Bond Principles (GBP) 2021 and the Social Bond Principles (SBP) 2021.<sup>4</sup>

Nafin's Sustainability Bond Framework identifies four eligible green categories and three eligible social categories aligned with ICMA's principles and international best practices.

## ELIGIBLE GREEN



1 Clean transportation

2 Energy efficiency

3 Renewable energy

4 Sustainable solid waste management

## ELIGIBLE SOCIAL



1 Improved access to essential services including education, vocational training and financial services and financing for low-income communities and young entrepreneurs and students.

2 Support for MSMEs and programs designed to create jobs, prevent and/or alleviate unemployment caused by socioeconomic crisis or natural disasters.

3 Women's empowerment and socioeconomic progress, including their equitable participation and integration into the market and society.

<sup>4</sup> [https://www.Nafin.com/portalfn/files/secciones/emisiones-relaciones-internacionales/captacion/documentos/Nafin\\_Sustainability\\_Bond\\_Framework\\_Second-Party\\_Opinion\\_291021.pdf](https://www.Nafin.com/portalfn/files/secciones/emisiones-relaciones-internacionales/captacion/documentos/Nafin_Sustainability_Bond_Framework_Second-Party_Opinion_291021.pdf)

# ISSUANCE SUMMARY

On May 11, 2023, Nafin carried out the successful placement of a Social Bond in two tranches. The first for 3years for an amount of MXN 4,533 million at a floating rate; the second 7year tranche of MXN 5,467 million at a fixed rate.

BOND LABEL	SOCIAL BOND	
Tranche	NAFR 23S	NAFF 23S
Issuer	Nacional Financiera S.N.C., I.B.D	
Credit rating	AAA (mex) por Fitch; HR AAA por HR Ratings	
Principal	MXN 4,533,000,000.00	MXN 5,467,000,000.00
Date of issuance	May 11th, 2023	
Maturity	3 years	7 years
Coupon/yield	TIIE + 0.26% (flat)	Mbono <sub>29-31</sub> 0.36% (9.08%)

On August 2, 2023, Nafin conducted the second issuance of the year, with a Social Bond in two floating-rate tranches. The first tranche had a maturity of 2.3 years and a value of MXN 4,500 million; the second tranche had a maturity of 3.5 years and a value of MXN 3,000 million.

Due to high demand, on August 4 of the same year, both tranches were reopened, resulting in an additional placement of MXN 1,523 million solely in the 2.3-year tranche.

BOND LABEL	SOCIAL BOND		
Tranche	NAFR 23-2S	NAFR 23- 2S (Reopening)	NAFR 23-3S
Issuer	Nacional Financiera S.N.C., I.B.D		
Credit rating	AAA (mex) por Fitch; HR AAA por HR Ratings		
Principal	MXN 4,500,000,000.00	MXN 1,523,242,600.00	MXN 3,000,000,000.00
Date of issuance	August 02 <sup>nd</sup> , 2023	August 4 <sup>th</sup> 2023	August 02 <sup>nd</sup> , 2024
Maturity	2.3 years		3.5 years
Coupon/yield	TIIE + 0.23% (flat)		TIIE+ 0.26% (flat)

On November 26, 2023, Nafin reopened the NAFR 23-3S Social bond, issued in August 2023, at a floating rate. The additional placement amounted to MXN 6,760 million with a maturity of 3.2-year.

BOND LABEL	SOCIAL BOND
Tranche	NAFR 23-3S
Issuer	Nacional Financiera S..N.C., I.B.D
Credit rating	AAA(mex) por Fitch; HR AAA por HR Ratings
Principal	MXN 6,760,150,000.00
Date of issuance	November 26 <sup>th</sup> , 2023
Maturity	3.2 years
Coupon/yield	TIIE + 0.27% (flat)

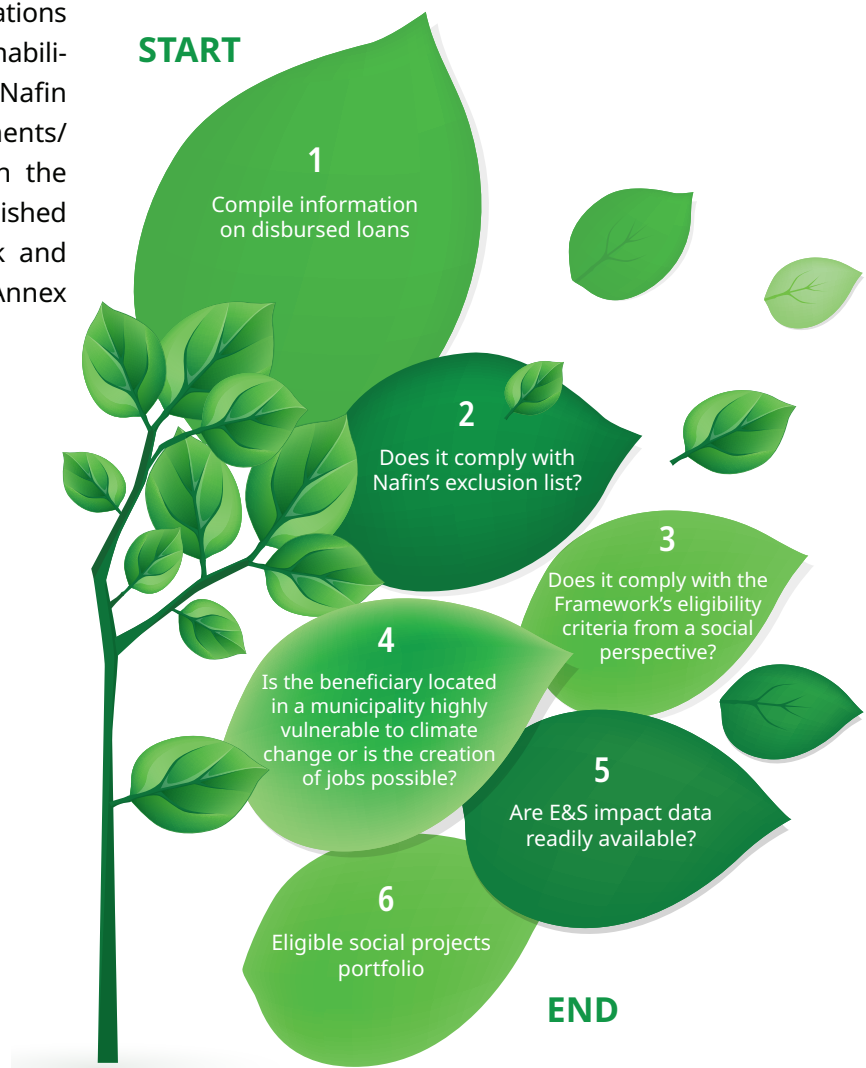
The floating rate note for all issues has 28-day coupons linked to the Interbank Funding Interest Rate (TIIE). The bond with a 7-year term secured a fixed rate of 9.08%.



# ALLOCATION AND IMPACT REPORTS

## PROJECT SELECTION AND GOVERNANCE

According to the regulations included in the Sustainability Bond Framework, Nafin validates that investments/ expenses comply with the eligibility criteria established under the Framework and its exclusion list (see Annex 1). *Figure 1*



## ALLOCATION REPORT

The proceeds from the Social Bonds issued in 2023 amount to MXN 25,783,392,600.00, all of which were allocated as of November 30, 2023. Of these, 100% have been allocated to refinance eligible expenses incurred during 2021, one year before the allocation of resources.

CATEGORY TYPE	NAME OF THE CATEGORY	ALLOCATED AMOUNT (MXN)				ALLOCATION (%) Social
		2021	2022	2023	Total	
Social	Support for MSMEs designed to generate, employment, prevent and/or alleviate unemployment resulting from socioeconomic, crisis, natural disasters and climate change	4,690,689,255.1	15,500,133,730.2	5,592,569,614.7	25,783,392,600.0	100%
<b>TOTAL</b>		<b>4,690,689,255.1</b>	<b>15,500,133,730.2</b>	<b>5,592,569,614.7</b>	<b>25,783,392,600.0</b>	<b>100%</b>

## IMPACT REPORT

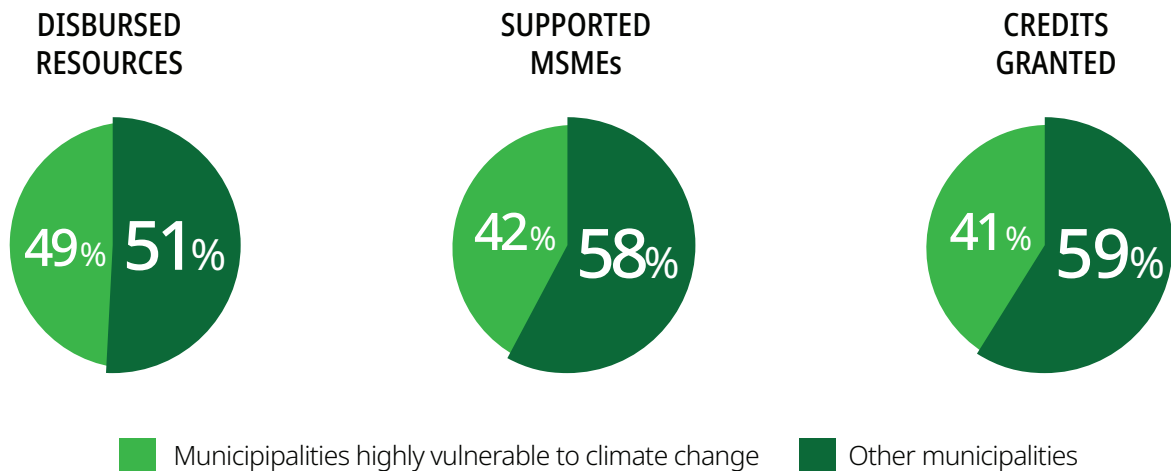
a) Environmental and Social Impact Indicators for the total allocation of the bond proceeds

CATEGORY TYPE	NAME OF THE CATEGORY	TOTAL CREDIT DISBURSED TO MSMES	TOTAL NUMBER OF MSMES SUPPORTED	TOTAL NUMBER OF JOBS CREATED
Social	Support for MSMEs designed to generate employment, prevent and/or alleviate unemployment resulting from socioeconomic crisis, natural disasters and climate change.	<b>1,031,782 Credits*</b> with a total amount of <b>\$25,783,392,600.00 MXN</b>	718,982	800

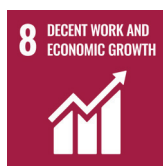
\* Through 707 loans to 23 Financial Intermediaries

b) Environmental and Social Impact Indicators in municipalities highly vulnerable to climate change

CREDIT DISBURSED TO MSMEs IN MUNICIPALITIES HIGHLY VULNERABLE TO CLIMATE CHANGE	NUMBER OF MSMEs SUPPORTED IN MUNICIPALITIES HIGHLY VULNERABLE TO CLIMATE CHANGE	NUMBER OF MUNICIPALITIES HIGHLY VULNERABLE TO CLIMATE CHANGE WHERE MSMEs WERE FINANCED	NUMBER OF JOBS CREATED IN MUNICIPALITIES HIGHLY VULNERABLE TO CLIMATE CHANGE
Of the total credits, 604,682 were disbursed in municipalities highly vulnerable to climate change, which corresponds to \$13,269,487,831 MXN	Of the 718,982 MSMEs supported, 419,594 are in municipalities highly vulnerable to climate change	1,090, municipalities highly vulnerable to climate change	Of the 800 jobs created 412 were in municipalities highly vulnerable to climate change



SDG ALIGNMENT



NDC ALIGNMENT

Adaptation component Axis A:  
Prevention and management of negative impact on human population and territory.

# METHODOLOGY NOTES

INDICATOR	METHODOLOGY AND ASSUMPTIONS
<b>Vulnerability to climate change</b>	<p>Nafin's credit disbursement targeted the most vulnerable to climate change Mexican municipalities with the aim of supporting enterprises and their people to cope with the effects of climate change by providing alternative means of employment and livelihood, for example, reducing dependency on agriculture and other activities vulnerable to the impacts of climate change.</p> <p>The municipalities most vulnerable to climate change are those that meet at least one of the following criteria:</p> <ul style="list-style-type: none"> <li>• <b>High vulnerability to climate change</b>, as defined by the National Atlas of Vulnerability to Climate Change developed by the National Institute of Ecology and Climate Change.<sup>5</sup></li> <li>• <b>High risk of droughts</b>, as defined by the North American Drought Monitor:<sup>6</sup> <ul style="list-style-type: none"> <li>» <b>Severe Drought (D2):</b> Crop or pasture loss likely, fire risk very high, water shortages common, water restrictions imposed.</li> <li>» <b>Extreme drought (D3):</b> Major crop/pasture losses extreme forest fire danger, widespread water shortages or restrictions.</li> <li>» <b>Exceptional drought (D4):</b> Exceptional and widespread crop/pasture losses, exceptional fire risk, shortages of water in reservoirs, streams and wells, creating water emergencies.</li> </ul> </li> </ul>
<b>Jobs creation</b>	<p>In 2022 the cost of jobs creation reached MXN 32.21 million of Gross Fixed Investment. This value is obtained by dividing the total number of jobs created in 2022 by Mexico's Gross Fixed Investment.</p> <ol style="list-style-type: none"> <li>a. New employment (2022) = 752,748</li> <li>b. Goss Fixed Investment (2022) = MXN 24,249,821 million</li> <li>c. Cost of job creation: (b) / (a) = MXN 32.21 million</li> <li>d. Credit disbursed to MSMEs with income from the bond = MXN 25,784 million</li> <li>e. Credit disbursed to MSMEs in cities with high vulnerability to climate change: \$13,270 million</li> </ol> <p>Number of jobs created: (d) / (c) = 800 new jobs.</p> <p>Number of jobs created in cities highly vulnerable to climate change: (e) / (c) = 412 new jobs.</p>
<b>Micro, Small and Medium-sized Enterprises<sup>7</sup></b>	<p>Micro, small and medium-sized enterprises are defined according to national standards (<i>Table 1</i>).</p>

<sup>5</sup> <https://atlasvulnerabilidad.inecc.gob.mx/page/index.html#zoom=undefined&lat=23.5000&lon=-101.9000&layers=1>

<sup>6</sup> <https://smn.conagua.gob.mx/es/categorias-de-sequia>

<sup>7</sup> INEGI (2019). Características de los establecimientos de propietarios: Censos económicos 2019. Extraído de [https://www.inegi.org.mx/contenidos/productos/prod\\_serv/contenidos/espanol/bvinegi/productos/nueva\\_estruc/889463900900.pdf](https://www.inegi.org.mx/contenidos/productos/prod_serv/contenidos/espanol/bvinegi/productos/nueva_estruc/889463900900.pdf)

TABLE 1. DEFINITION OF MSMEs

STRATIFICATION OF ENTERPRISES	SECTOR	NUMBER OF PERSONS EMPLOYED	ANNUAL SALES AMOUNT RANGE (MMXN)	MAXIMUM CAP*
<b>Microenterprises</b>	All	0 a 10 people	Up to \$4	4.6
<b>Small enterprises</b>	Commerce	11 a 30 people	From \$4.01 to \$100	93
	Industry and services	11 a 50 people	From \$4.01 to \$100	95
<b>Medium-sized enterprises</b>	Commerce	31 a 100 people	From \$100.01 to \$250	235
	Services	De 51 a 100		
	Industry	De la 51 a la 250	From \$100.01 to \$250	250

\*Maximum cap: (Workers) x 10% + (Annual Sales) x 90%

Source: Ministry of Economy



# ANNEX 1: EXCLUSION LIST<sup>8</sup>

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1. Non-compliance with the fundamental rights at work and international labor standards.<sup>9</sup>
2. Any product or activity considered illegal under the laws and regulations of the country or under the treaties and international agreements.
3. Manufacturing or trafficking weapons and ammunition.
4. Production or commercialization of alcoholic beverages<sup>10</sup> (excluding beer, wine and beverages from Mexico that have a designation of origin).
5. Production or commercialization of tobacco.<sup>11</sup>
6. Gambling, casinos and similar activities.<sup>12</sup>
7. Manufacturing or sale of radioactive materials, except for the purchase of medical equipment, quality control equipment (measurement) and any other equipment for which it can be shown that the source of radioactivity is negligible or adequately covered.
8. Production, commercialization or use of non-agglomerated asbestos fibers.<sup>13</sup>
9. Production or commercialization of wooden products or other forest products without the corresponding plan for sustainable management.
10. Forestry projects or operations in fragile or environmentally sensitive areas without a forest management plan and an approved environmental permit.
11. Manufacturing or sale of products with Polychlorinated Biphenyls.
12. Production, commercialization, storage or transport of significant volumes of dangerous chemicals that do not comply with Mexican regulations.
13. Cross-border waste trade, except non-hazardous waste for recycling.<sup>14</sup>
14. Production or commerce of pharmaceutical specialties subject to phased withdrawal or international ban.<sup>15</sup>
15. Production or commerce of pesticides or herbicides subject to phased withdrawal or international ban and persistent organic pollutants (POP).<sup>16</sup>
16. Production or commerce of substances that deplete the ozone layer subject to phased withdrawal internationally.<sup>17</sup>
17. Fishing with gillnets and trammel nets in the marine environment with nets longer than 2,5 km.
18. Production or activities that violate lands property of indigenous people or that were claimed by adjudication, without the full documented consent of said people.

19. Production or commercialization of products or activities considered to be illegal according to local regulations or international conventions and agreements, such as wildlife or products covered by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).<sup>18</sup>
20. Projects that involve violations of national and international conventions and treaties regarding the indigenous population and native peoples.<sup>19</sup>
21. For the purpose of this reference framework, the financing of projects with activities based on fossil fuels is excluded.

<sup>8</sup> Nafin. Exclusion list. Retrieved from: [https://www.nafin.com/portalfn/files/secciones/Acerca\\_de\\_Nafin/nafin-saras/pdf/Lista\\_de\\_exclusio\\_769\\_n\\_SARAS\\_NAFIN.pdf](https://www.nafin.com/portalfn/files/secciones/Acerca_de_Nafin/nafin-saras/pdf/Lista_de_exclusio_769_n_SARAS_NAFIN.pdf)

<sup>9</sup> Fundamental Rights at work and International Labor Standards are: i) freedom of association, syndical freedom and effective recognition of the right to collective bargaining; ii) abolition of forced or compulsory labor; iii) abolition of child labor, including but not limited to, prohibiting persons under 18 years of age from working in hazardous conditions (including construction activities), performing night work, and being declared fit to work based on a medical examination; and iv) The elimination of discrimination in employment and occupation, in which discrimination is defined as any difference, exclusion or preference based on race, color, sex, religion, political opinion or national or social origin (International Labor Organization, <http://www.ilo.org>).

<sup>10</sup> This restriction does not apply to enterprises for which operations or activities related to the criteria represent less than 30% of the enterprise's total annual revenue.

<sup>11</sup> This restriction does not apply to Project sponsors who do not have a significant involvement in these activities. "not having a significant involvement" means that the activity in question is secondary to the primary activities of the project sponsor.

<sup>12</sup> This restriction does not apply to Project sponsors who do not have a significant involvement in these activities. "not having a significant involvement" means that the activity in question is secondary to the primary activities of the project sponsor. For example, for the tourism sector, whose main activity is hospitality and among its secondary activities is the marketing of alcoholic beverages.

<sup>13</sup> This restriction does not apply to the purchase or use of fiber cement boards with asbestos content lower than 20%.

<sup>14</sup> Defined by the Basel Convention (<http://www.basel.int>).

<sup>15</sup> Pharmaceutical products phased out of the market or banned, according to the United Nations publication "Consolidated List of Products whose Consumption and/or Sale has been Banned, Withdrawn, Severely Restricted or Not Approved by Governments" (last version: March, 2001: <https://www.who.int/publications/item/EDM-QSM-2001.3>).

<sup>16</sup> Defined in the International Convention on the Reduction and Elimination of Persistent Organic Pollutants (POP; September 1999); currently includes the pesticides aldrin, chlordane, dieldrin, endrin, heptachlor, mirex and toxaphene, as well as the industrial chemical chlorobenzene ([www.pops.int](http://www.pops.int)).

<sup>17</sup> Ozone depleting substances (ODS) are chemical compounds that react with stratospheric ozone and reduce it, which produces the much mentioned "ozone layer holes". The Montreal Protocol includes a list of these substances and the dates that were established for their reduction and withdrawal from the market. Some of the chemicals regulated by the Montreal Protocol are aerosols, foaming agents, solvents and fire protection agents (<https://ozone.unep.org/treaties/montreal-protocol/montreal-protocol-substances-deplete-ozone-layer>).

<sup>18</sup> Convention on International Trade in Endangered Species of Wild Fauna and Flora, <https://cites.org/eng>

<sup>19</sup> Supreme Court Judgement or Inter-American Court Judgement.



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